



December 24, 2003

Tom Carter
Power Operations Manager
Sierra Nevada Region
Western Area Power Administration
114 Parkshore Drive
Folsom, CA 95630-4710



Dear Mr. Carter:

This is in response to Western's December 2, 2003 Federal Register Notice (FRN) regarding Operational Alternatives for Post 2004. The Trinity Public Utilities District (TPUD) appreciates all the hard work Western's staff has expended in this effort. We are encouraged that Western's staff shares our goal of working for the best interest of the CVP customers. Unfortunately, the best interest of most electric consumers is of only incidental importance to the CAISO and its supporters that oppose a new control area.

The TPUD is extremely disappointed, but not surprised, by Western's proposed decision to seek a "contract-based sub-control area". We are disappointed because, if the best interests of consumers were paramount over the CAISO's interests, a Federal Control Area in Northern California would have been the preferred alternative. Consumers have needed a Federal Control Area in Northern California for over 40 years. The enormous political pressure that was brought to bear on Western's staff did not surprise us. Nor were we surprised that much of this political pressure was outside of the public process. The sole purpose of the pressure was to protect the hallowed theories cherished by the CAISO and its supporters. That pressure's objective was any proposed decision that continues to delay a new control area.

The political pressure is very evident in the FRN. In several instances, the weight given to the Evaluation Factors for an alternative to a new control area is very generous and not well supported by the background information presented. For example, after defining Durability as "minimal changes over time" and then using over a column to summarize the CAISO's constantly changing tariffs, the FRN inexplicably finds that the PTO option "almost meets" the Durability Evaluation Factor. Yet, after the FRN correctly finds that the new control area option is the only option that meets all of the Evaluation Factors, the proposed decision does not select the new control area as the preferred alternative. Such illogic can only be explained by political pressure.

Exactly what a "contract-based sub-control area" is will be very dependent on how it is defined in the contract. To be even remotely as beneficial as a new control area, the contract should, at a minimum:

- Have a term at least as long as the twenty-year contracts Western is committed to in the 2004 Power Marketing Plan.
- Contain a relatively short termination provision, the minimum amount of time needed to allow Western to develop a new control area. The provision should provide an effective deterrent against the control area operator charging excessive costs and implementing unnecessary or unjustifiable procedures or services.
- Have "non-discrimination" provisions in the SMUD contract. It is unlikely that SMUD would develop unwanted services or excessive charges for its own customers. SMUD should be required to treat Western's customers similarly.
- Have charges that are truly cost-based, not the CAISO's definition of "cost-causation" based. That is, charges should be based on the cost to provide the service, not based on whatever costs result from the high charges that the "Market" encourages.¹
- Have provisions to ensure that the costs incurred are just and reasonable, and do not include either: (1) absurd profits that the "Market" produces, or (2) expenses that benefit other market participants, but do not benefit Western and its customers.
- Where feasible, rates should be fixed or formula-based. If that is not feasible then proposed changes should be relatively infrequent and only after a "meet and confer" process. New rates or charges should have a tolling period that is at least as long as the termination period.
- Assure, to the extent practical, that the benefits and burdens of the contract are appropriately shared by all Western customers, large and small, whether directly connected to Western's system or not.
- Prohibit any material changes from occurring by unilateral action of the governing body of the control area operator.

¹ Before the CAISO, TPUD's annual cost for "cost-based" rates for transmission and control area services were less than \$300,000. Since the start of the CAISO, not one additional service has been provided for the benefit of the TPUD, nor are any additional beneficial services proposed. Under the CAISO's "cost-causation" based rates, the TPUD is facing annual costs of over \$1 million. This more than trebling of cost is for what will actually be less service, as we will have to satisfy Scheduling Coordinator requirements and many other tasks that will substantially increase in our internal costs. The CAISO's "cost-causation" rates are basically costs caused by the CAISO; most would not be incurred in the absence of the CAISO.

- Avoid frequent billings and an unnecessary amount of billing determinates. Just because the CAISO has no shortage of computers and manpower to spend dollars to bill dimes, is no reason for Western to try to match the insanity.

We are very concerned about the time available for contract negotiations to be completed. Time is on both the CAISO's and SMUD's side, in particular the CAISO. Any negotiating delays may force Western to accept the PTO option, the least desirable option. To meet the short negotiating time period with the CAISO would require an almost miraculous reversal of the CAISO's history of avoiding reason and reality while embracing sophism and theory. It is much more likely that negotiations with SMUD may proceed expeditiously. However, the CAISO and its supporters are likely to use the same political influence that begot a "contract-base sub-control area" to also delay formal approval of a contract with SMUD.

The TPUD recommends that Western self-impose a deadline for completion of negotiations to allow sufficient time, should negotiations fail, for Western to complete the necessary steps in order to begin control area operations by January 1, 2005. If, by that deadline, a contract for a "contract-based sub-control area" is not fully executed, then Western should cease all negotiations and proceed immediately to devote all efforts toward forming a new control area. Please remember that a new control area is the only alternative that meets all of the Evaluation Factors. The only possibly valid reason to continue negotiations would be the unlikely event that PG&E and the CAISO agree to continue the status quo beyond 2004.

What customer input if any, will be provided during the proposed negotiations is not clear. We urge Western to establish a customer process that regularly briefs all interested customers on the status of negotiations and to consider customer input on items of negotiation. Customer involvement is needed to offset the continued political pressure we expect from the CAISO and its supporters.

The TPUD is particularly concerned about interference in the negotiations from influential people that are still searching for their version of a market utopia, but do not understand what a control area is. They are frequently misled when the CAISO and its supporters routinely confuse very different utility functions. Large markets and RTOs are not analogous to large or few control areas. The TPUD supports the pursuit of large markets and RTOs, but not large control areas. Too large a control area, such as the CAISO, assures only two things: (1) higher inefficiencies, thus higher costs for the consumers, and (2) more widespread

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blackouts. Unfortunately, the people who are likely to interfere with the negotiations will never have to face the families that their interference will affect - we do.

It is theoretically possible to develop a "contract-based sub-control area" that is as beneficial as a new control area. It is also theoretically possible to develop a completely competitive electric market. But theory is not always practical, and chasing theory can be more costly than the value of any benefit that might be realized. The TPUD prefers that Western not pursue the theory of a "contract-based sub-control area", and instead proceed directly to develop a new control area. If the CAISO ever gets close to implementing theory, such that the CAISO expenses (plus the expenses it causes others) are reasonably related to the benefits, then it may be timely to consider a "contract-based sub-control area", or even a PTO with the CAISO.

Should Western's proposed negotiations result in equivalent terms from SMUD and the CAISO, then SMUD would be the preferred provider. We question whether the CAISO will exist 20 years from now. If it does, we doubt that it will resemble what it is today. Few bureaucracies that are rooted in politics, instead of principles, can exist that long unchanged.

If there is any way the TPUD can assist Western during the negotiations, please do not hesitate to ask. We are very grateful for Western's efforts. Western has been the lone shining star our customer/owners could count on while the dark clouds have been passing over the electric industry these past several years.

Sincerely,

A handwritten signature in black ink, appearing to read "Rick Coleman", with a long horizontal flourish extending to the right.

Rick Coleman
General Manager

RC/js